

EAST TAWAS HOUSING COMMISSION

Financial Statements

December 31, 2003

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

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***John C. DiPiero, P.C.***

Certified Public Accountant

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Board of Commissioners  
East Tawas Housing Commission  
304 West Bay Street  
East Tawas, Michigan 48730

### **Independent Auditor's Report**

I have audited the financial statements listed in the Table of Contents of the East Tawas Housing Commission as of and for the year ended December 31, 2003. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the East Tawas Housing Commission as of December 31, 2003, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated April 2, 2004 on my consideration of the East Tawas Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, if fairly stated in all material respects in relation to the financial statements taken as whole.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Certified Public Accountant

April 2, 2004

EAST TAWAS HOUSING COMMISSION  
Combined Balance Sheet  
December 31, 2003

**ASSETS**

**C-3087**

CURRENT ASSETS

Cash	\$	31,309
Accounts Receivable- HUD		9,522
Accrued Interest Receivable		1,349
Investments		35,386
Prepaid Expenses		46,500
Inter Program due from		<u>44,906</u>

Total Current Assets \$ 168,972

NON CURRENT ASSETS

Land	\$	205,892
Building		2,313,321
Furniture, Equipment- Dwellings		33,347
Furniture, Equipment- Administrative		44,265
Leasehold Improvements		493,924
Accumulated Depreciation		<u>(1,468,112)</u>

Total Non Current Assets 1,622,637

TOTAL ASSETS \$ 1,791,609

EAST TAWAS HOUSING COMMISSION  
Combined Balance Sheet  
December 31, 2003

LIABILITIES & EQUITY

C-3087

LIABILITIES:

CURRENT LIABILITIES

Accounts Payable	\$	4,558	
Accrued Liabilities		7,471	
Accounts Payable-Other Governments		14,553	
Tenants Security Deposit		15,451	
Deferred Revenue		434	
Other Current Liabilities		9,092	
Current Portion-Long Term Debt		100,000	
Inter-Program due to		<u>44,906</u>	
<u>Total Current Liabilities</u>	\$		196,465

LONG TERM LIABILITIES

Long Term Accrued Compensated Absences	\$	4,816	
General Obligation Bonds		670,000	
Less: Current Obligations		<u>(100,000)</u>	
<u>Total Long Term</u>			<u>574,816</u>
<u>Total Liabilities</u>	\$		771,281

EQUITY:

Contributed Capital	\$	531,959	
Undesignated Fund Balance		<u>488,369</u>	
<u>Total Equity</u>			<u>1,020,328</u>

TOTAL LIABILITIES & EQUITY \$ 1,791,609

The accompanying footnotes are an integral part of the financial statements.

EAST TAWAS HOUSING COMMISSION  
Combined Statement of Income and Expenses  
For the year ended December 31, 2003

REVENUE

Tenant Rental Revenue	\$	227,330	
Tenant Revenue- Other		600	
HUD Grants		218,054	
Interest Income		2,422	
Other Income		<u>4,443</u>	
<u>Total Revenue</u>	\$		452,849

EXPENSES

Administrative	\$	91,228	
Tenant Services		4,019	
Utility Expenses		82,402	
Ordinary Maintenance		99,105	
General Expenses		<u>68,689</u>	
<u>Total Expenses</u>			<u>345,443</u>

Excess (Deficiency) of Revenues over Expenses \$ 107,406

OTHER DEDUCTIONS

Extraordinary Maintenance	\$	12,276	
Depreciation Expenses		<u>85,812</u>	
<u>Total Other Deductions</u>			<u>98,088</u>

NET PROFIT (LOSS) \$ 9,318

The accompanying footnotes are an integral part of the financial statements.

Combined Statement of Cash Flows  
For the Year Ended December 31, 2003

	<u>Business Type Activities</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Receipts from Customers	\$ 227,330
Payments to Suppliers	(278,824)
Payments to Employees	(105,720)
HUD Grants	218,054
Other Receipts (Payments)	<u>6,865</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>67,705</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Purchases of Capital Assets	\$ (57,373)
Principal paid on Debt	<u>(100,000)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ <u>(157,373)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (89,668)
Balance- Beginning of Year	<u>120,977</u>
Balance- End of Year	\$ <u>31,309</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>	
Net Profit or (Loss)	\$ 9,318
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	85,812
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	(9,496)
Investments	(19,360)
Prepaid Expenses	12,622
Interfund Due From	(8,673)
Changes in Liabilities Increase (Decrease):	
Accounts Payable	(1,948)
Accrued Liabilities	17,900
Security Deposits	898
Accounts Payable- Other Governments	(27,780)
Deferred Revenue	(507)
Other Accrued Liabilities	246
Interfund Due To	<u>8,673</u>
Net Cash Provided by Operating Activities	\$ <u>67,705</u>

The Accompanying Notes are an Integral part of the Financial Statements



Combined Statement of Changes in Fund Balance  
For the Year Ended December 31, 2003

Contributed Capital:

Balance at Beginning of Year	\$	574,773
Depreciation Add Back		(76,554)
Reclassification		<u>33,740</u>
	\$	<u>531,959</u>

Undesignated Fund Balance:

Balance at Beginning of Year	\$	436,237
Net Income (Loss) for the Year		9,318
Depreciation Add Back		76,554
Reclassification, above		<u>(33,740)</u>
	\$	<u>488,369</u>

The accompanying footnotes are an integral part of the financial statements.

Notes to Financial Statements  
December 31, 2003

NOTE 1: Summary of Significant Accounting Policies

**Reporting Entity-**

East Tawas Housing Commission, East Tawas, Michigan, (Commission) was created by ordinance of the city of East Tawas. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 102-001	Low rent program	41 units
	New Construction	44 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

**Basis of Presentation-**

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

## **Proprietary Funds**

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

### **Basis of Accounting-**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principles (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989.

### **Budgetary data-**

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

### **Assets, Liabilities, and Net Assets-**

#### **Deposits & Investments**

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

#### **Cash Equivalents**

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

## Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

## Due To and Due From Other Funds

Interfund receivables and payables arise from inter-program transactions and are recorded by all funds affected in the period in which transactions are executed.

## Compensated Absences

Compensated absences are for unused vacation days, personal leave days, and accumulated compensation time, based on total accumulation of time at current rates of compensation. Financial Accounting Standards Board (FASB) # 43 establishes proper generally accepted accounting principles (GAAP) concerning such accruals. The following criteria must be met:

- 1) Employee's right to compensation is attributable to past performance.
- 2) The right to compensation is vested or accumulates.
- 3) It is probable that the compensation will be paid.
- 4) The amount is reasonably estimable.

The Commission accrued a percentage of the above based on an analysis of past retirements and current potential using the above criteria.

The estimated portion of the liability for vested leave benefits attributable to the Commission is recorded as an expenditure and liability in each of the respective programs.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$	228
Savings Accounts		30,881
Petty Cash		<u>200</u>
Financial Statement Total	\$	<u>31,309</u>

Investments:

Savings Accounts	\$	<u>35,386</u>
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Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
<b>Cash:</b>					
Checking A/C's	\$ 228	\$	\$	\$ 228	\$ 228
Petty Cash	200			200	200
Savings Account	<u>30,881</u>			<u>30,881</u>	<u>30,881</u>
Total Cash	\$ <u>31,309</u>	\$	\$	\$ <u>31,309</u>	\$ <u>31,309</u>

	<u>Categories</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
<b>Investments:</b>					
Savings Account	\$ <u>35,386</u>	\$	\$	\$ <u>35,386</u>	\$ <u>35,386</u>

Note 3: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 196,370	\$ 9,522	\$	\$ 205,892
Buildings	2,313,321			2,313,321
Furniture & Equipment-Dwellings	33,347			33,347
Furniture & Equipment-Admin	44,265	3,000	3,000	44,265
Leasehold Improvements	<u>449,073</u>	<u>44,851</u>		<u>493,924</u>
	\$ 3,036,376	\$ 57,373	\$ 3,000	\$ 3,090,749
Less Accumulated Depreciation	<u>1,382,300</u>	<u>88,812</u>	<u>3,000</u>	<u>1,468,112</u>
	\$ <u>1,654,076</u>	\$ <u>(31,439)</u>	\$ <u>0</u>	\$ <u>1,622,637</u>

Note 4: Prepaid Expenses.

Prepaid Expenses consist of the following:

Prepaid Insurance	\$ 4,000
Unamortized Loan Origination Fees (Note 6)	<u>42,500</u>
Total Prepaid Expenses	\$ <u>46,500</u>

Note 5: Accrued Liabilities & Other Liabilities.

Accrued Liabilities consist of the following:

Wages & Payroll Taxes	\$ 2,945
Interest Payable- New Construction	
Bonds	<u>4,526</u>
Total Accrued Liabilities	\$ <u>7,471</u>

Other Liabilities consist of the following:

Accrued Utilities Payable	\$ <u>9,092</u>
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Note 6: Fixed Liabilities:

The financing of the Commission consists of the following:

Bonds	\$ 770,000
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1998 General Obligation Unlimited Tax Refunding Bonds (Section 8 Senior Citizens Housing), interest rate ranging between 3.65% to 4.15%, payable serially until 2009.

The following represents the annual principle & interest obligations:

	<u>Bonds Payable</u>
December 31, 2004	\$ 129,123
December 31, 2005	125,158
December 31, 2006	126,058
December 31, 2007	126,758
December 31, 2008	124,950
Thereafter	252,209

Due to the unique regulatory constraints of the debt it is impracticable to estimate the fair value of debt.

In addition to the aforementioned debt, a prepaid bond refinancing was charged to other assets; the charge is being written off using the straight line method at a rate of \$ 7,100 per year. The following represents the activity:

Prepaid bond refinancing paid at closing	\$ 90,000
Amortized prior to beginning of year	<u>(40,400)</u>
Balance at beginning of year	\$ 49,600
Annual Amortization	<u>(7,100)</u>
Balance at end of year	\$ <u>42,500</u>

Note 7: HUD Guaranteed Debt and Contributed Capital.

HUD guaranteed debt has been reclassified to Contributed Capital for all years ending after September 30, 1999. The reclassification is a result of all HUD programs converting from a basis of accounting prescribed by HUD other than Generally Accepted Accounting Principles (GAAP), to GAAP.

The following represents the original Capital Contribution as a result of the above requirements:

HUD Held Notes	\$ 130,142
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Note 8: Pension Plan

The Commission participates in the City of East Tawas Defined Contribution Pension Plan. All eligible employees have 6% of their annual salary contributed to the plan by the Commission. Actuarial and statistical data are reported under a separate report prepared by the City.

Note 9: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 4,337,320
General Liability	1,000,000
Dishonesty Bond	3,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

Note 10: Segment Information for Enterprise Funds.

The Commission maintains an enterprise fund; segment information for the year ended December 31, 2003, is as follows:

Operating Revenue	\$ 227,930
operating Income	107,406
Non Operating Revenue (Expenses)	
Extraordinary Maintenance	(12,276)
Depreciation Expense	(85,812)
Net Profit (Loss)	9,318
Non Current Assets (net)	1,622,637
Total Assets	1,791,609
Retained Earnings	488,369

Note 11: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 12: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principles of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).



Status of Prior Audit Findings  
December 31, 2003

The prior audit of the East Tawas Housing Commission for the period ended December 31, 2002, did not contained any audit findings or questioned cost.

Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2003

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
<u>CFDA 14.850 Public and Indian Housing</u>	
C-3087 Operating Subsidies	\$ <u>29,929</u>
* <u>CFDA 14.182 N/C Section 8 Program</u>	
C-3087 Section 8 Assistance Payments	\$ <u>174,188</u>
<u>CFDA 14.872 Public Housing Capital Fund Program</u>	
C-3087 Capital Fund Program	\$ <u>13,937</u>
	\$ <u>218,054</u>

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 4,337,320
General Liability	1,000,000
Dishonesty Bond	3,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

\*Connotes Major Program Category

Report on Compliance Applicable to Each Major Program  
and on Internal Control over Compliance in  
Accordance with OMB Circular A-133  
December 31, 2003

Compliance

I have audited the compliance of East Tawas Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2003. East Tawas Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of East Tawas Housing Commission's management. My responsibility is to express an opinion on East Tawas Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about East Tawas Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of East Tawas Housing Commission's compliance with those requirements.

In my opinion, East Tawas Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003.

Internal Control over Compliance

The management of East Tawas Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered East Tawas Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

April 2, 2004

Report on Compliance and on Internal Control over  
Financial Reporting Based on an Audit of Financial  
Statements Performed in Accordance with  
Government Auditing Standards  
December 31, 2003

I have audited the financial statements of East Tawas Housing Commission, East Tawas, Michigan, as of and for the year ended December 31, 2003, and have issued my report thereon dated April 2, 2004. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether East Tawas Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instance of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered East Tawas Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountant

April 2, 2004

Schedule of Findings and Questioned Cost  
December 31, 2003

1) Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing		X
Lower Income Housing Assistance	X	
Capital Fund Programs		X

Opinions:

General Purpose Financial Statements-

Unqualified

Report on compliance for non major programs-

Unqualified

Thresholds

Dollar limit used to determine type A & B programs- \$ 300,000

2) Findings relating to the financial statements reported in accordance with  
Government Auditing Standards:

None

3) Findings and Questioned Costs relating to Federal Awards:

None